

ORIGINAL  
OPEN MEETING



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MEMORANDUM  
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TO: THE COMMISSION

2005 FEB 17 A 9:42

Arizona Corporation Commission

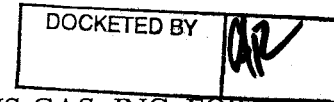
DOCKETED

FROM: Utilities Division

AZ CORP COMMISSION  
DOCUMENT CONTROL

FEB 17 2005

DATE: February 17, 2005



RE: IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR APPROVAL  
OF ADJUSTMENT TO PURCHASED GAS ADJUSTOR SURCHARGE (DOCKET  
NO. G-04204A-05-0046)

UNS Gas, Inc. ("UNS" or "Company") is engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("ACC" or "Commission"). On January 25, 2005, UNS filed for Commission approval of a temporary purchased gas adjustor ("PGA") surcharge due to high natural gas prices. The application seeks a surcharge of \$0.06 per therm effective April 1, 2005 and remaining in effect for 12 months.

UNS' approved PGA Tariff RR-1 requires that should the PGA bank balance reach an over or under collection in the amount of \$4,450,000 the Company must file an application for an adjustment within forty-five days of completing the monthly informational filing that illustrates that the threshold has been exceeded, or alternatively contact the ACC to discuss why a PGA rate adjustment is not necessary at the time.

UNS' PGA rates are calculated using a 12 month rolling average. The rolling average has a \$0.10 band that limits the adjustor rate implemented to no more than \$0.10 difference than any PGA rate in the previous 12 months. The monthly PGA rate has been constrained by the \$0.10 band since September of 2004. It is necessary for UNS to seek approval of a surcharge in order to recover the undercollected balance that has developed.

In the recent past UNS has had a surcharge. UNS' most recent surcharge was \$0.1155 authorized by Decision No. 65384 (November 13, 2002). That surcharge ended October of 2004. The surcharge included a "surcharge holiday". Subsequent decisions, Decision No. 66341 (September 30, 2003) and Decision 66861 (March 23, 2004), added a circuit-breaker mechanism to the surcharge. The surcharge holiday and circuit-breaker mechanisms made certain adjustments to the rates in winter months. UNS has not asked for such provisions in this application.

UNS' November PGA filing, dated January 21, 2005, demonstrated that November's ending bank balance had passed the PGA threshold and risen to \$6,575,602 in undercollection. While UNS has not yet formally submitted its January PGA bank balance report to the Commission, the Company has indicated to Staff that a preliminary calculation of December 2004's ending PGA balance shows the balance at approximately \$9,290,000 undercollected.

UNS does not anticipate that its current undercollected balance will be recovered in the next year without a surcharge. The proposed \$0.06 surcharge is designed to reduce the PGA bank balance to zero in the spring of 2006. Contained in Attachment I is a chart that demonstrates the future projected bank balance should no surcharge be implemented. The chart also shows the projected future balance should any of three surcharge options be implemented. These options shown are \$0.04, \$0.05, and \$0.06 per therm. Attachment II demonstrates the effect these surcharge options would have on selected residential customer's monthly bills. The projections are based on historic data, projected therm sales, and projected gas costs.

Residential customers of UNS used a monthly average 28 therms in the summer of 2004, April to September. Residential customers are projected to use a monthly average of 74 therms in the winter of 2004-2005, October to March, based on consumption to date this winter and historic data from last winter. The following tables demonstrate the effect on selected residential customers of implementation of a \$0.05 per therm surcharge (rather than UNS' proposed \$0.06 surcharge) in both summer and winter, assuming residential average usage occurs as is projected:

**Table I**  
**Impact on Residential Bills**  
**Summer/ April - September**

<b>Number of Therms Used</b>	<b>Percent of Average Therm Use</b>	<b>Bill Without Surcharge</b>	<b>Bill With \$0.05 Surcharge</b>	<b>Percent Change in Bill</b>
21	75%	\$ 27.06	\$ 28.11	3.88%
28 (average)	100%	\$ 33.86	\$ 35.26	4.15%
35	125%	\$40.43	\$42.18	4.33%
42	150%	\$47.12	\$49.22	4.46%

**Table II**  
**Impact on Residential Bills**  
**Winter/ October - March**

<b>Number of Therms Used</b>	<b>Percent of Average Therm Use</b>	<b>Bill Without Surcharge</b>	<b>Bill With \$0.05 Surcharge</b>	<b>Percent Change in Bill</b>
55	74%	\$ 64.89	\$ 67.64	4.24%
74 (average)	100%	\$ 84.39	\$ 88.07	4.36%
92	124%	\$103.84	\$108.44	4.43%
111	150%	\$123.39	\$129.39	4.48%

The effects that each of three surcharge options would have both on the average residential customer's monthly bill and the effect on customers whose consumption is both higher and lower than the average consumption rate is shown in Attachment III.

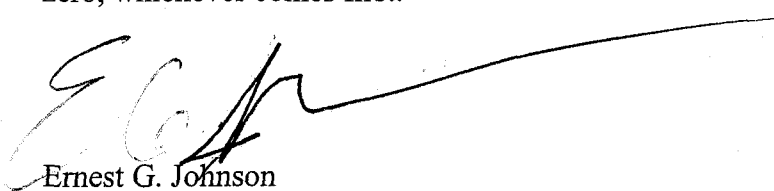
UNS has hedged the price for approximately 60 percent of its current working gas and has hedged approximately 20 percent of its gas for next winter. UNS has explained to Staff its intention to increase the proportion of next winter's hedged gas to approximately 60 percent as the 2005-2006 winter season approaches. As next winter approaches, the portion of UNS' gas supply portfolio which is not hedged will be subject to the market forces that prevail at the time. While customer therm use can be anticipated to a certain degree, weather and market prices that will occur next winter cannot be predicted with certainty.

On February 4, 2005, UNS provided to Staff an example of a bill insert that would be used to inform customers about the surcharge proposal. The bill insert invites customers to contact UNS to comment on the matter. The notice also provides a toll-free number for the Commission which connects with the Consumer Services Section of the Commission should customers want to leave their comments with the Commission. Staff reviewed the insert and found it to be reasonable notice for the proposed surcharge. UNS began sending the notice and given the UNS billing cycles, the bill inserts should reach all customers two weeks or more before March 24, 2005 depending on their individual billing cycle. A copy of the bill insert message is attached as Attachment IV.

Staff's analysis of the PGA balance for the next twelve months, based on current gas rates and projected demand, concludes that the PGA balance will not be reduced to zero by the spring of 2006 without a PGA credit of at least \$0.05. Staff has reviewed projections for future cost, consumption, and other estimations used in determining an appropriate surcharge and finds them reasonable for purposes of setting the credit.

Staff recommends implementation of a \$0.05 credit as it is projected to eliminate the undercollected balance by May of 2005. Staff recommends a \$0.05 surcharge as it balances UNS' interest in reducing its undercollected balance with the customer's interest in price stability.

Staff also recommends that the surcharge be implemented in April of 2005 and be in effect for the earlier of a period of 12 months or until such time as UNS' balance is reduced to zero, whichever comes first.



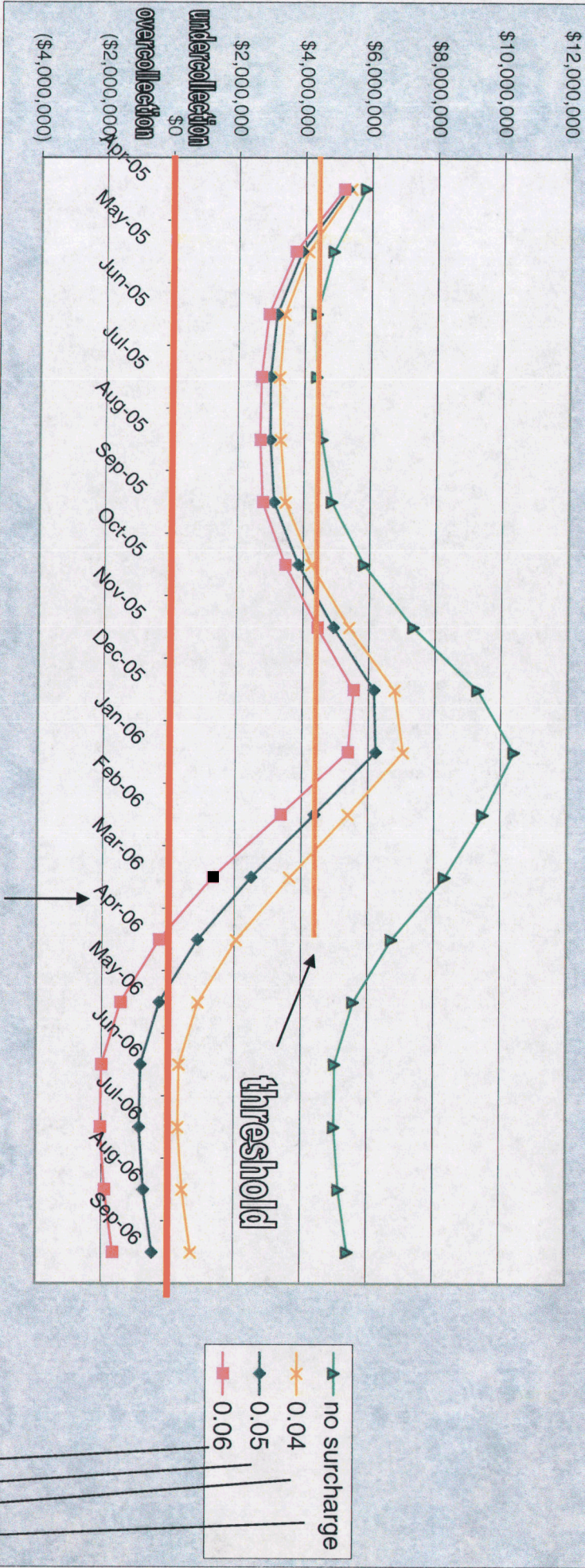
Ernest G. Johnson  
Director  
Utilities Division

EGJ:SPI:lhmvjg

ORIGINATOR: Steve Irvine



bank balance  
includes 6 month period following termination of surcharge



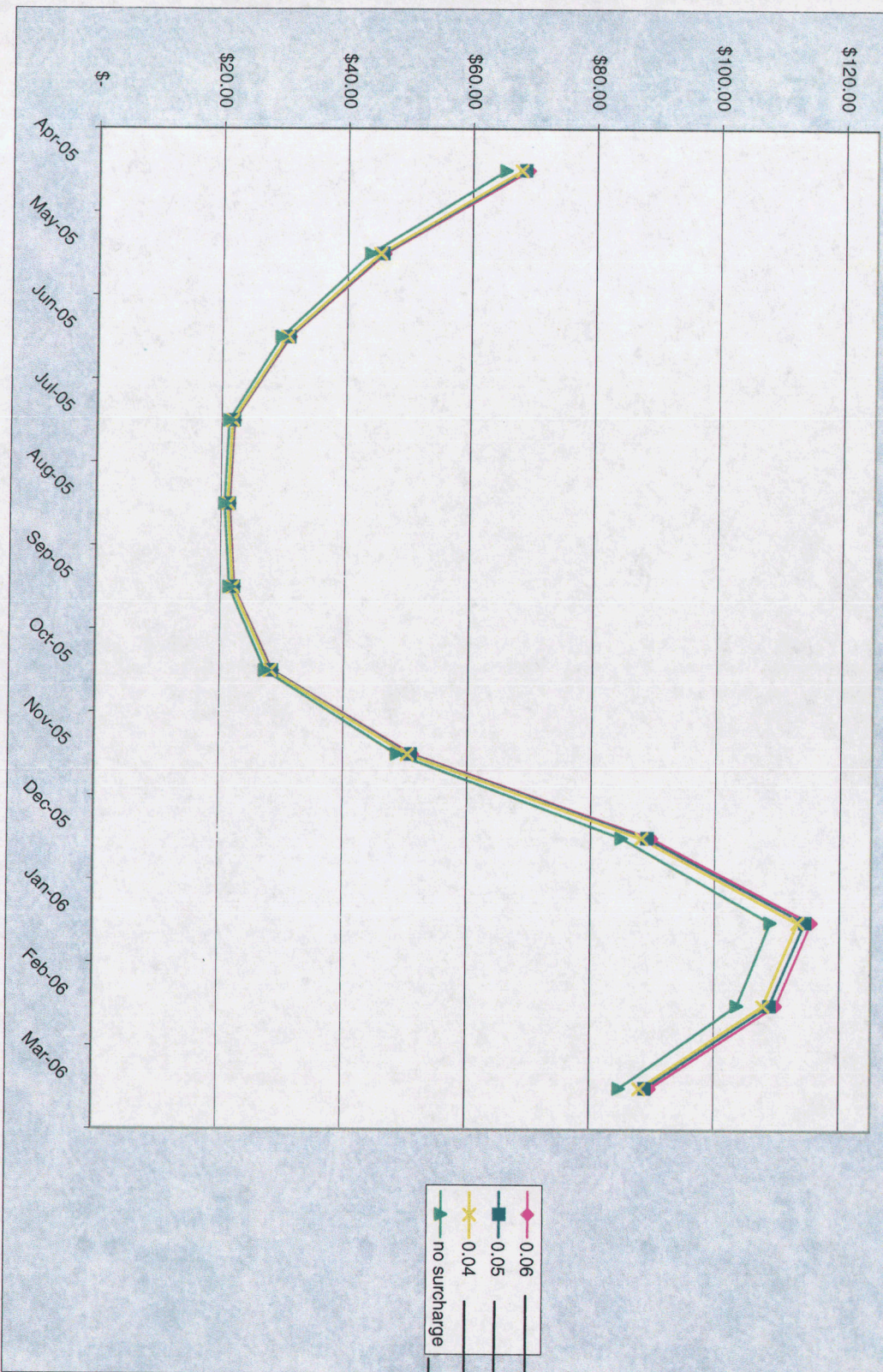
surcharge ending in March 06

Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06
5,815,674	4,851,120	4,352,026	4,356,179	4,537,429	4,849,050	5,832,879	7,335,822	9,289,254	10,394,927	9,473,602	8,323,534
5,371,755	4,079,691	3,385,288	3,240,813	3,284,225	3,448,059	4,241,063	5,403,831	6,790,434	7,057,051	5,403,576	3,654,963
5,260,776	3,886,834	3,143,604	2,961,972	2,970,925	3,097,811	3,843,109	4,920,834	6,165,729	6,222,581	4,386,069	2,487,821
5,149,796	3,693,977	2,901,919	2,683,130	2,657,624	2,747,563	3,445,155	4,437,836	5,541,024	5,388,112	3,368,563	1,320,678
Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06						
6,728,559	5,583,058	5,031,511	5,009,484	5,155,025	5,425,812						
2,051,508	897,511	337,451	306,897	443,894	706,123						
882,245	-273,876	-836,064	-868,750	-733,889	-473,799						
-287,018	-1,445,263	-2,009,579	-2,044,397	-1,911,671	-1,653,721						



## ATTACHMENT II

**Average residential user's anticipated monthly bill during surcharge implementation**

[illegible]



# ATTACHMENT III

## Monthly bills that result from seasonal average usage, by each rate proposition

	Summer April '05 to Sept '06 period	Winter October '05 to March '06 period
With 0.06 surcharge	\$35.45	\$87.21
With 0.05 surcharge	\$35.17	\$86.48
With 0.04 surcharge	\$34.89	\$85.74
With no surcharge	\$33.76	\$82.80

## Seasonal monthly bills that result from various usage levels, by each rate proposition

	Summer	Winter
<u>With 0.06 surcharge</u>		
20 therms	\$27.24	\$83.37
28 therms (seasonal average)	\$35.45	\$87.21
35 therms	\$42.41	\$99.73
50 therms	\$57.59	\$110.64
<u>With 0.05 surcharge</u>		
20 therms	\$27.04	\$82.67
28 therms (seasonal average)	\$35.17	\$86.48
35 therms	\$42.06	\$98.88
50 therms	\$57.09	\$109.69
<u>With 0.04 surcharge</u>		
20 therms	\$26.84	\$81.97
28 therms (seasonal average)	\$34.89	\$85.74
35 therms	\$41.71	\$98.03
50 therms	\$56.59	\$108.74
<u>No surcharge</u>		
20 therms	\$26.04	\$79.17
28 therms (seasonal average)	\$33.76	\$82.80
35 therms	\$40.31	\$94.63
50 therms	\$54.59	\$104.94



## PLEASE READ: AN IMPORTANT NOTICE ABOUT GAS COSTS

UniSource Energy Services (UES) has asked the Arizona Corporation Commission (ACC) to approve a six cent-per-therm surcharge on customers' gas bills to recover the cost of natural gas purchases.

If approved, the surcharge would be applied to gas customers' bills beginning April 1 and removed one year later. It would add an estimated \$2.92, or about 5 percent, to the average UES residential gas bill, though the impact will vary depending on the amount of gas used. The surcharge will recover costs incurred to purchase gas for customers, and UES does not profit from it. Visit <http://www.uesaz.com> for more information about gas rates and the potential impact of this proposed surcharge.

The ACC is tentatively scheduled to discuss this matter Thursday, Mar. 24, in a meeting that begins at 10 a.m. in the ACC's first floor hearing room, 1200 W. Washington, Phoenix, AZ 85007. If this schedule changes, the new meeting date will be posted at <http://www.uesaz.com>. If you have any questions about this matter, you can contact UES by calling 1-800-635-8033. To find out how to comment on the proposed surcharge, you can call the ACC at 1-800-222-7000 or visit <http://www.cc.state.az.us>.

Staff note about this notice:

Please note that actual notice will be printed on a sheet that is cut to 1/3 the size of standard 8.5" X 11" paper. Also note that UNS has indicated that the paper will be 'colorstock' and the font size will be 12 point or larger.

1                               **BEFORE THE ARIZONA CORPORATION COMMISSION**

2   JEFF HATCH-MILLER  
      Chairman  
3   WILLIAM A. MUNDELL  
      Commissioner  
4   MARC SPITZER  
      Commissioner  
5   MIKE GLEASON  
      Commissioner  
6   KRISTIN K. MAYES  
      Commissioner

8   IN THE MATTER OF THE APPLICATION  
9   OF UNS GAS, INC. FOR APPROVAL OF  
10  ADJUSTMENT TO PURCHASED GAS  
11  ADJUSTOR SURCHARGE

DOCKET NO. G-04204A-05-0046  
DECISION NO. \_\_\_\_\_  
ORDER

12  Open Meeting  
13  March 24, 2005  
14  Phoenix, Arizona

14  BY THE COMMISSION:

15                               FINDINGS OF FACT

16           1.     UNS Gas, Inc. ("UNS" or "Company") is engaged in providing natural gas service  
17  within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission  
18  ("ACC" or "Commission").

19           2.     On January 25, 2005 UNS filed for Commission approval of a temporary purchased  
20  gas adjustor ("PGA") surcharge due to high natural gas prices. The application seeks a surcharge  
21  of \$0.06 per therm effective April 1, 2005 and remaining in effect for 12 months.

22           3.     UNS' approved PGA Tariff RR-1 requires that should the PGA bank balance reach  
23  an over or under collection in the amount of \$4,450,000 the Company must file an application for  
24  an adjustment within forty-five days of completing the monthly informational filing that illustrates  
25  that the threshold has been exceeded, or alternatively contact the ACC to discuss why a PGA rate  
26  adjustment is not necessary at the time.

27           4.     UNS' PGA rates are calculated using a 12 month rolling average. The rolling  
28  average has a \$0.10 band that limits the adjustor rate implemented to no more than \$0.10



1 difference than any PGA rate in the previous 12 months. The monthly PGA rate has been  
2 constrained by the \$0.10 band since September of 2004. It is necessary for UNS to seek approval  
3 of a surcharge in order to recover the undercollected balance that has developed.

4 5. In the recent past UNS has had a surcharge. UNS' most recent surcharge was  
5 \$0.1155 authorized by Decision No. 65384 (November 13, 2002). That surcharge ended October  
6 of 2004. The surcharge included a "surcharge holiday". Subsequent decisions, Decision No.  
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8 mechanism to the surcharge. The surcharge holiday and circuit-breaker mechanisms made certain  
9 adjustments to the rates in winter months. UNS has not asked for such provisions in this  
10 application.

11 6. UNS' November PGA filing, dated January 21, 2005, demonstrated that  
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13 undercollection. While UNS has not yet formally submitted its January PGA bank balance report  
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15 2004's ending PGA balance shows the balance at approximately \$9,290,000 undercollected.

16 7. UNS does not anticipate that its current undercollected balance will be recovered in  
17 the next year without a surcharge. The proposed \$0.06 surcharge is designed to reduce the PGA  
18 bank balance to zero in the spring of 2006.

19 8. Residential customers of UNS used a monthly average 28 therms in the summer of  
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26 ...

27 ...

28 ...

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1 it to be reasonable notice for the proposed surcharge. UNS began sending the notice and given the  
2 UNS billing cycles, the bill inserts should reach customers two weeks or more before March 24,  
3 2005 depending on their individual billing cycle.

4 11. Staff's analysis of the PGA balance for the next twelve months, based on current  
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6 spring of 2005 without a PGA credit of at least \$0.05. Staff has reviewed projections for future  
7 cost, consumption, and other estimations used in determining an appropriate surcharge and finds  
8 them reasonable for purposes of setting the credit.

9 12. Staff recommends implementation of a \$0.05 credit as it is projected to eliminate  
10 the undercollected balance by May of 2005. Staff recommends a \$0.05 surcharge as it balances  
11 UNS' interest in reducing its undercollected balance with the customer's interest in price stability.

12 13. Staff also recommends that the surcharge be implemented in April of 2005 and be  
13 in effect for the earlier of a period of 12 months or until such time as UNS' balance is reduced to  
14 zero, whichever comes first.

#### 15 CONCLUSIONS OF LAW

16 1. UNS Gas, Inc. is an Arizona public service corporation within the meaning of  
17 Article XV, Section 2 of the Arizona Constitution.

18 2. The Commission has jurisdiction over UNS Gas, Inc. and the subject matter of the  
19 application.

20 3. The Commission, having reviewed the application and Staff's Memorandum dated  
21 February 17, 2005, concludes that it is in the public interest to approve the filing to apply a \$0.05  
22 surcharge to the rates of UNS, Gas, Inc.

23 ...

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28 ...

ORDER

IT IS THEREFORE ORDERED that a \$0.05 per therm surcharge is approved for UNS Gas, Inc., effective April 1, 2005.

IT IS FURTHER ORDERED that the surcharge end at such time as the bank balance is reduced to zero, or the end of March 2005, whichever occurs first.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2005.

\_\_\_\_\_  
BRIAN C. McNEIL  
Executive Secretary

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

EGJ:SPL:lm\JG



1 SERVICE LIST FOR: UNS Gas, Inc.  
2 DOCKET NO. G-04204A-05-0046

3 Mr. Raymond S. Heyman  
4 Attorney for UNS Gas, Inc.  
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7 Phoenix, Arizona 85004

8 Mr. Ernest G. Johnson  
9 Director, Utilities Division  
10 Arizona Corporation Commission  
11 1200 West Washington Street  
12 Phoenix, Arizona 85007

13 Mr. Christopher C. Kempley  
14 Chief Counsel  
15 Arizona Corporation Commission  
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